

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Ionia Community Library		County Ionia	
Fiscal Year End June 30, 2006		Opinion Date September 28, 2006		Date Audit Report Submitted to State December 21, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

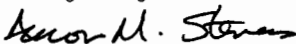
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100			City Ionia	State MI
			Zip 48846	
Authorizing CPA Signature 		Printed Name Aaron M. Stevens		License Number 1101024055

**Ionia Community Library
Ionia, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Ionia Community Library
Ionia, Michigan

June 30, 2006

BOARD OF TRUSTEES

Sally Wilcox	President
Gale Yeomans	Vice-President
Cathy Pearce	Treasurer
Pam Withrow	Secretary
Janet Powell	Member
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Ionian Community Library

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Ionia Community Library
Ionia, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ionia Community Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ionia Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ionia Community Library as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2006

Ionia Community Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006

Financial Reporting

The intent of standards set by the Governmental Accounting Standards Board (GASB) is to provide citizens, taxpayers, and library users with a better understanding of how the Ionia Community Library's (the "Library") money and other assets were managed. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,193,269 (net assets) at the government-wide level.
- The Library's total net assets increased by \$13,039 at the government-wide level.
- Total governmental fund balance decreased by \$935.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Ionia Community Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's operating fund.

Ionia Community Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006

The Library as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and 2006.

	June 30	
	2005	2006
Assets		
Current assets	\$ 469,267	\$ 476,018
Capital assets, net	<u>953,598</u>	<u>752,046</u>
Total assets	1,422,865	1,228,064
Liabilities		
Current liabilities	16,530	15,350
Noncurrent liabilities	<u>19,701</u>	<u>19,445</u>
Total liabilities	36,231	34,795
Net Assets		
Invested in capital assets	953,598	752,046
Restricted for capital projects	36,999	86,432
Unrestricted	<u>396,037</u>	<u>354,791</u>
Total net assets	<u>\$ 1,386,634</u>	<u>\$ 1,193,269</u>

The Library's total net assets were \$1,193,269 at June 30, 2006. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$354,791 at the end of the fiscal year. The net assets invested in capital assets were at \$752,046.

The following table shows the changes in net assets during the years ending June 30, 2005 and 2006.

	June 30	
	2005	2006
Revenues		
Program revenue:		
Charges for services	\$ 9,568	\$ 13,468
Operating grants and contributions	221,179	22,965
Capital grants and contributions	814,978	-
General revenue:		
Property taxes	568,100	305,585
State Aid - unrestricted	19,510	16,707
Penal Fines	155,379	154,335
Interest	9,093	13,706
Other	<u>5,905</u>	<u>-</u>
Total revenues	1,803,712	526,766
Program Expenses		
Recreation and cultural	<u>\$ 417,078</u>	<u>513,727</u>
Change in Net Assets	<u>\$ 1,386,634</u>	<u>\$ 13,039</u>

Ionia Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2006

Governmental Activities

The Library's governmental revenues totaled \$526,766 with the greatest revenue source being property taxes. Property taxes make up approximately 58% of total governmental revenue. During the fiscal year ending June 30, 2006, Penal Fine income makes up approximately 29% of the Library's revenues.

The Library incurred expenses of \$513,727 during the year. The majority of governmental expense is associated with the staffing of the Library, which provides all library services to the public. Staffing expenses make up approximately 57% of total Library expenses during the fiscal year ending June 30, 2006. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

The Library's Fund

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The Ionia Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2006 was the General Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$518,863 for the fiscal year. Total General Fund expenditures decreased by \$39,077 from the prior year.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated expenditures during the year. There were only minor revenue and expenditure amendments done during the current year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$752,046 invested in land, equipment, furniture, and materials (net of accumulated depreciation).

No debt was issued during the fiscal year. The Library had no indebtedness at June 30, 2006.

Next Year's Millage Rate

A twenty-year 1.0 operating millage was approved August 3, 1998. For fiscal year 2005/2006 the revenue was \$296,747 from the actual levy of .9452 mills. The projected revenue for the 2006/2007 fiscal year is \$311,397 from an actual levy of .9381 mills. The actual revenue may vary due to tax capture by the local Downtown Development Authority.

At its June 28, 2006 meeting, the Library Board of Trustees approved fiscal year 2006/2007 revenue estimates of \$513,279 and expenditures of \$513,279.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Heidi Nagel, Library Director, 126 East Main Street, Ionia, MI 48846, (616) 527-3680, ionhn@lcoo.org.

BASIC FINANCIAL STATEMENTS

Ionia Community Library

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 315,047
Investments	155,370
Prepaid expenses	<u>5,601</u>
Total current assets	476,018
Noncurrent assets	
Capital assets, net	<u>752,046</u>
TOTAL ASSETS	1,228,064
LIABILITIES	
Current	
Accounts payable	620
Accrued liabilities	6,203
Other accrued liabilities	6,366
Current portion of compensated absences	<u>2,161</u>
Total current liabilities	15,350
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>19,445</u>
TOTAL LIABILITIES	<u>34,795</u>
NET ASSETS	
Invested in capital assets	752,046
Restricted for capital projects	86,432
Unrestricted	<u>354,791</u>
TOTAL NET ASSETS	<u><u>\$ 1,193,269</u></u>

See accompanying notes to financial statements.

Ionia Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	<u>\$ 513,727</u>	<u>\$ 13,468</u>	<u>\$ 22,965</u>	<u>\$ (477,294)</u>
General revenues:				
				305,585
				16,707
				154,335
				<u>13,706</u>
			TOTAL GENERAL REVENUES	<u>490,333</u>
			CHANGE IN NET ASSETS	13,039
			Restated net assets, beginning of year	<u>1,180,230</u>
			Net assets, end of year	<u>\$ 1,193,269</u>

See accompanying notes to financial statements.

Ionia Community Library
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2006

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 315,047
Investments	155,370
Prepaid expenditures	<u>5,601</u>
TOTAL ASSETS	<u><u>\$ 476,018</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 620
Accrued liabilities	6,203
Other accrued liabilities	6,366
Deferred revenue	<u>304,099</u>
TOTAL LIABILITIES	317,288
FUND BALANCE	
Reserved for capital projects	86,432
Reserved for prepaid expenditures	5,601
Unreserved - undesignated	<u>66,697</u>
TOTAL FUND BALANCE	<u>158,730</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 476,018</u></u>

See accompanying notes to financial statements.

Ionia Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Fund balance - governmental fund \$ 158,730

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 954,495
Accumulated depreciation is	<u>(202,449)</u>

Capital assets, net	752,046
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Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	304,099
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Long-term liabilities are not due and payable in the current period the funds.
and therefore are not reported as liabilities in the funds. Long-term liabilities
at year-end consist of:

Compensated absences	<u>(21,606)</u>
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Net assets of governmental activities	<u>\$ 1,193,269</u>
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See accompanying notes to financial statements.

Ionia Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended June 30, 2006

	<u>General</u>
REVENUES	
Taxes	\$ 296,747
Charges for services	13,468
Intergovernmental	16,707
Fines and forfeits	154,192
Interest	13,849
Other	<u>22,965</u>
TOTAL REVENUES	517,928
EXPENDITURES	
Recreation and cultural	414,289
Capital outlay	<u>104,574</u>
TOTAL EXPENDITURES	<u>518,863</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(935)
Fund balance, beginning of year	<u>159,665</u>
Fund balance, end of year	<u><u>\$ 158,730</u></u>

See accompanying notes to financial statements.

Ionia Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balance - governmental fund \$ (935)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 103,022	
Depreciation expense	<u>(50,933)</u>	
Excess of capital outlay over depreciation expense		52,089
Net effect of disposal of capital assets		(47,237)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,838
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	<u>284</u>
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Change in net assets of governmental activities	<u><u>\$ 13,039</u></u>
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See accompanying notes to financial statements.

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Ionia, Ionia Public Schools, and the Townships of Easton and Ionia created the Ionia Community Library on July 1, 2004, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of eight (8) members, two (2) each appointed by the City of Ionia, the Township of Easton, the Township of Ionia, and Ionia Public Schools. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Ionia Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Ionia Community Library. The Ionia Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The General Fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts.

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Receivables

Receivables consist of delinquent property taxes due from individuals.

8. Property Taxes

Ionia County levies property taxes for the Library. As the Library tax is collected by the City and Township Treasurers, it is remitted to the County for distribution to various libraries within the County. At March 1 each year, the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the various libraries by the County Treasurer. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The County is permitted by state statute to levy up to \$1 per \$1,000 of assessed valuation on property within the County on behalf of the Library. For the year ended June 30, 2006, the County levied .9452 mills.

9. Capital Assets

PRIMARY GOVERNMENT

Capital assets include building improvements, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building improvements	20 years
Equipment and furniture	5 - 50 years
Collection	5 - 40 years

10. Deferred Revenue

Deferred revenue consists of property taxes for which there is an enforceable claim as of December 31, 2005, but which are levied to finance 2006 operations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick pay amounts and non-vested sick pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability in the government-wide financial statements.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Ionia Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Ionia Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of June 30, 2006, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 232,571	\$ 230,033
Savings	82,476	82,476
Certificates of deposit	<u>106,160</u>	<u>106,160</u>
TOTAL	<u>\$ 421,207</u>	<u>\$ 418,669</u>

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Library. As of June 30, 2006, the Library accounts were insured by the FDIC and NCUA for \$186,472 and the amount of \$232,197 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the Library had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment			
Independent	<u>\$ 49,210</u>	<u>\$ 49,210</u>	N/A

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has not adopted a policy that indicates how the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Restated Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets Not Being Depreciated				
Construction in progress	\$ 143,720	\$ 43,679	\$ -	\$ 187,399
Land	<u>111,914</u>	<u>-</u>	<u>-</u>	<u>111,914</u>
Subtotal	255,634	43,679	-0-	299,313
Capital Assets Being Depreciated				
Building improvements	60,877	660	-	61,537
Collections	562,340	42,586	(50,611)	554,315
Furniture and equipment	<u>23,233</u>	<u>16,097</u>	<u>-</u>	<u>39,330</u>
Subtotal	646,450	59,343	(50,611)	655,182
Less Accumulated Depreciation				
Building improvements	(34,809)	(5,385)	-	(40,194)
Collections	(109,182)	(38,520)	3,374	(144,328)
Furniture and equipment	<u>(10,899)</u>	<u>(7,028)</u>	<u>-</u>	<u>(17,927)</u>
Subtotal	<u>(154,890)</u>	<u>(50,933)</u>	<u>3,374</u>	<u>(202,449)</u>
Net Capital Assets Being Depreciated	<u>491,560</u>	<u>8,410</u>	<u>(47,237)</u>	<u>452,733</u>
Total Net Capital Assets	<u>\$ 747,194</u>	<u>\$ 52,089</u>	<u>\$(47,237)</u>	<u>\$ 752,046</u>

NOTE D: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Compensated absences	<u>\$ 21,890</u>	<u>\$ -</u>	<u>\$ 284</u>	<u>\$ 21,606</u>	<u>\$ 2,161</u>

Significant details regarding compensated absences (including current portions) are presented below:

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$21,606 for compensated absences at June 30, 2006. This amount has been recorded in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: RISK MANAGEMENT

The Library participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, casualty, automobiles, crime, employee benefit, and public official losses. The pool is organized under Public Act 138 of 1982, as amended. The Library has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Library carries commercial insurance for the risk of loss due to workers' compensation claims.

NOTE F: RETIREMENT PLANPlan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The Library contributes all amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2006, the Library's annual pension cost of \$23,838 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of the annual actuarial valuation at October 1, 2004, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 30 year period on a closed basis.

	Year Ended September 30, 2004	Year Ended December 31, 2005
Actuarial value of assets	\$ -	\$ 165,476
Actuarial accrued liability (AAL)	268,066	301,955
Unfunded AAL	268,066	136,479
Funded ratio	0 %	55 %
Covered payroll	146,301	149,179
UAAL as a percentage of covered payroll	15.83 %	91 %
	Year Ended June 30, 2005	2006
Annual pension cost	\$ 28,278	\$ 23,838
Percentage of APC contributed	100 %	100 %
Net pension obligation	-	-

Three year trend information is not yet available as the Library first started participating in MERS during the year ended June 30, 2005.

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: RETIREMENT PLAN - CONTINUED

The Ionia Community Library has a 457, single employer defined contribution plan, available to all full time employees. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All full time employees of the Library are eligible to participate.

The plan allows each employee to determine his/her own contribution, up to 100% of his/her salary according to current provisions of the Internal Revenue Service Code. The Library matches up to 3% of employees contributions. Employee and employer contributions are paid to the plan on each payroll date (bi-weekly) and for the year ending June 30, 2006, employer contributions to the plan were \$4,139.

NOTE G: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following is the fund balance as of June 30, 2006:

General Fund	
Reserved for capital projects	\$ 86,432
Reserved for prepaid expenditures	<u>5,601</u>
	<u>\$ 92,033</u>

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

Governmental activities	
Restricted for capital projects	<u>\$ 86,432</u>

NOTE I: RESTATEMENT OF NET ASSETS

The Library has retroactively adjusted capital asset balances net of accumulated depreciation to reflect corrections of overstated balances. Net assets as of June 30, 2005 were \$1,386,634. The adjustment of \$206,404 results in restated net assets as of June 30, 2005 of \$1,180,230.

REQUIRED SUPPLEMENTARY INFORMATION

Ionia Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 292,988	\$ 296,569	\$ 296,747	\$ 178
Library fees	12,850	13,640	13,468	(172)
Intergovernmental				
State aid	16,322	15,950	16,707	757
Penal fines	150,000	154,159	154,192	33
Interest	10,000	10,000	13,849	3,849
Other				
Donations	77,000	16,127	22,965	6,838
Other	31,056	16,397	-	(16,397)
TOTAL REVENUES	590,216	522,842	517,928	(4,914)
EXPENDITURES				
Recreation and cultural				
Salaries and wages	211,377	205,064	203,334	1,730
Payroll taxes and fringe benefits	101,786	90,340	92,863	(2,523)
Utilities	9,000	10,800	9,942	858
Supplies	3,500	3,500	5,161	(1,661)
Communications	8,320	7,814	7,625	189
Advertising	5,000	23,500	19,693	3,807
Repairs and maintenance	24,700	24,700	23,427	1,273
Insurance	2,000	5,579	3,719	1,860
Contractual services	20,000	20,000	27,523	(7,523)
Travel and training	4,000	4,000	4,127	(127)
Dues and memberships	7,300	8,675	8,668	7
Fundraising	20,000	-	-	-0-
Miscellaneous	6,000	8,500	8,207	293
Total recreation and cultural	422,983	412,472	414,289	(1,817)
Capital outlay				
Books and other materials	40,233	41,609	44,104	(2,495)
Equipment	22,000	21,500	16,791	4,709
Construction in process	105,000	47,261	43,679	3,582
Total capital outlay	167,233	110,370	104,574	5,796
TOTAL EXPENDITURES	590,216	522,842	518,863	3,979
EXCESS OF REVENUES (UNDER) EXPENDITURES	-	-	(935)	(935)
Fund balance, beginning of year	159,665	159,665	159,665	-0-
Fund balance, end of year	\$ 159,665	\$ 159,665	\$ 158,730	\$ (935)

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

Members of the Board of Trustees
Ionia Community Library
Ionia, Michigan

As you know, we have recently completed our audit of the records of the Ionia Community Library as of and for the year ended June 30, 2006. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

The investment policy of the Library should be amended to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Library has not amended their investment policy to address the reporting requirements of GASB Statement No. 40. This issue had been noted and reported in our audit comments last year.

Deposit resources often represent significant assets of the Library's governmental fund. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Library review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 28, 2006.

This report is intended solely for the information and use of management and the Board members of Ionia Community Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2006